

VZCZCXRO7129
RR RUEHBC RUEHDE RUEHIHL RUEHKUK
DE RUEHKO #3116/01 3150728
ZNY CCCCC ZZH
R 100728Z NOV 08
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC 8693
INFO RUCNRAQ/IRAQ COLLECTIVE
RHMCSUU/DEPT OF ENERGY WASHINGTON DC
RHEFDIA/DIA WASHINGTON DC
RUEAIIA/CIA WASHDC
RHEHAAA/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 003116

SIPDIS

E.O. 12958: DECL: 11/07/2013

TAGS: [EPET](#) [EINV](#) [PREL](#) [IZ](#) [JA](#)

SUBJECT: NIPPON OIL WEIGHING IRAQ OIL BID AMID POLITICAL,
SECURITY CONCERNS

REF: A. BAGHDAD 3397

[1](#)B. TOKYO 2188

Classified By: Ambassador J. Thomas Schieffer for Reasons 1.4 (b), (d)

[1](#)1. (C) SUMMARY: Officials from Nippon Oil, Japan's largest petroleum company and one of four Japanese firms pre-qualified to participate in first-round bidding on Iraqi oil tenders, report the firm is still deliberating whether to bid on Iraqi contracts amidst internal questions about Iraqi political concerns, security risks, and its ability to compete with the world's major oil companies. If the firm bids, officials said, it will likely be as part of a consortium, and Nippon Oil intends to focus any work on development of Iraq's southern oil fields. END SUMMARY.

[1](#)2. (C) Nippon Oil is actively considering bidding on petroleum contracts to develop fields in southern Iraq. The size of the oil fields and the relative ease of transporting oil from southern Iraq to Japan make the option attractive, although at this stage the firm believes it is premature to judge the potential of Iraq's oil industry or the transparency of the bidding process, according to Nippon Oil Deputy General Manager for Middle East project coordination and business development Makoto Masaki. Masaki told embosffs his firm has been studying investment in Iraq for the past two to three years. However other Japanese firms, particularly Japex, have a longer history in the country. Masaki said while Iraqi Oil Minister Shahrastani has been aggressive in promoting development of Iraq's oil industry, Petroleum Ministry staff appear to lack the capacity to carry out Shahrastani's ambitious development agenda. In addition, local elections in Iraq scheduled for January could add an element of unspecified political risk to the bidding process.

SOUTHERN IRAQI OIL FIELDS ARE THE SINGLE FOCUS

[1](#)3. (C) Hiroki Yoshida, Assistant Manager for Middle East and New Ventures, who attended the Oil Ministry's tender briefing in London October 13 (ref A), said the Ministry encouraged bidders to form consortia, with the regional Iraqi oil company holding a 51% stake and international companies sharing the remaining 49%. Because Western oil majors had previously been in discussions with the Petroleum Ministry for short-term technical service contracts and have studied the fields up for tender, Yoshida said his firm is at a disadvantage and he expects difficulty in winning a bid. As such, should it bid, Nippon Oil will likely enter a joint venture, although Yoshida said the firm has not yet contacted or been approached by potential partners interested in developing the southern fields.

[1](#)4. (C) Masaki confirmed press reports that the Turkish Petroleum Corporation had approached Nippon Oil in September 2008 about jointly-developing oil fields in northern Iraq,

however Nippon Oil declined the offer. Masaki said his firm is focused on developing Iraq's southern oil fields because of the relative ease of transportation to Japan. Masaki also suggested the firm is not interested in building relations with the Kurdistan Regional Government (KRG) because of Nippon Oil's interest in oil fields in the South.

IMPRESSIONS ON THE FUTURE DIRECTION OF CONTRACTS

15. (C) Masaki said Iraq's Petroleum Ministry prefers 20-year technical service contracts to production sharing agreements (PSA), and this situation is likely to continue since Iraq expects technology transfer and downstream investment in Iraq's oil infrastructure, e.g., refinery upgrades and power plants. Such contracts would be structured to allow the firm to recover its investment and see a small profit. (Note: The industry tends to prefer PSAs for large-scale development since they allow the firm to market the petroleum from the project to cover its initial investment costs for a fixed period before revenue sharing with the country begins. Masaki, however, did not suggest that the lack of a PSA would discourage his firm from bidding. End Note).

IRAQI PETROLEUM ENGINEERS LACK KNOW-HOW

16. (C) While the four to six MMBD production potential figure often mentioned in the press seems "ridiculous", it may be possible in the long-term, Masaki said. He explained the biggest obstacle to developing Iraq's oil industry is a lack

TOKYO 00003116 002 OF 002

of skilled labor. In particular, the average age of Iraqi engineers is relatively old, and they tend to have limited English ability and experience working with Western oil companies. To address this skill shortage, Nippon Oil has participated in GOJ capacity-building programs and has hosted young Iraqi engineers on short-term training assignments.

IRAQI "EVACUATION STATUS" COMPLICATES INVESTMENT DECISION

17. (C) Masaki also said security concerns will affect his firm's decision on whether to bid, as the contract will require the firm to open an office in Baghdad. He explained the company adheres to the Japanese Ministry of Foreign Affairs security advisories, which currently categorize Iraq as in "evacuation" status. Should MOFA lower the threat level, the firm might feel more encouraged to participate. Masaki also noted a general shift by the GOJ toward encouraging Japanese firms to invest in Iraq, evidenced by the July business matchmaking event in Amman and said the planning for a second event, to take place in Iraq, is underway, and such occasions make it easier to gather information on the investment climate in Iraq.

SCHIEFFER